



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 11, 2004

H.R. 4229 **Fair Insurance Premiums for Disabled Veterans Act**

As introduced on April 28, 2004

SUMMARY

H.R. 4229 contains provisions that would affect two insurance programs administered by the Department of Veterans Affairs (VA). CBO estimates that enacting this legislation would raise direct spending by \$14 million in 2005, \$117 million over the 2005-2009 period, and \$278 million over the 2005-2014 period.

H.R. 4229 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4229 is shown in Table 1. For this estimate, CBO assumes the bill will be enacted before the end of calendar year 2004. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 4229

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	14	24	25	27	28
Estimated Outlays	14	24	25	27	28

BASIS OF ESTIMATE

H.R. 4229 contains provisions that would affect two insurance programs administered by VA (see Table 2). Under the bill, the provisions would become effective 120 days after enactment. CBO estimates that enacting this legislation would raise direct spending by \$14 million in 2005, \$117 million over the 2005-2009 period, and \$278 million over the 2005-2014 period.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING FOR VETERANS' LIFE INSURANCE BENEFITS UNDER H.R. 4229

Description of Provisions	Outlays By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Premium Reductions to S-DVI	12	20	21	22	23	24	25	26	27	28
Expand Coverage for VMLI	<u>2</u>	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>7</u>	<u>7</u>
Total Changes	14	24	25	27	28	30	31	32	34	35

NOTES: Five and 10-year costs in the text differ slightly from a summation of the annual costs listed here because of rounding.
S-DVI = Service-Disabled Veterans Insurance; VMLI = Veterans Mortgage Life Insurance.

Premium Reductions

Section 2 would update the mortality table used to calculate the premiums for Service-Disabled Veterans Insurance (S-DVI). This program was established to provide certain disabled veterans with life insurance at premiums based on the 1941 mortality rates of comparable nondisabled individuals. Because life expectancy has improved significantly since 1941, the proposed update would result in lower premiums for policyholders. VA subsidizes this program because the collected premiums are not large enough to cover total costs. Lowering the premiums would allow more veterans to participate in the program and also would increase the amount of the VA subsidy.

CBO obtained data from VA that compared the projected subsidies to the S-DVI program if premiums for policyholders were maintained at the current rates against the estimated subsidies needed if premiums were reduced as proposed in this section. Information from VA indicates that premiums could be reduced by between 42 percent and 74 percent, depending on the veteran's age and type of life insurance issued if the new mortality tables were used to calculate premiums for new policyholders. The agency also expects that those lower premiums would entice more veterans to take up the insurance, roughly doubling participation. Using these differences in the premiums and assuming that participation would double from 3,600 to 7,200 new policyholders per year, and increase from approximately

162,000 policyholders in 2005 to 172,000 by 2014, CBO estimates that this provision would cost \$12 million in 2005, \$97 million over the 2005-2009 period, and \$228 million over the 2005-2014 period.

Expand Coverage for Mortgage Life Insurance

Veterans Mortgage Life Insurance (VMLI) provides coverage to certain severely disabled veterans who have received grants for specially adapted housing from VA. VMLI pays off the outstanding balance of the mortgage upon a veteran's death. Under current law, the maximum coverage allowed under VMLI is \$90,000. Section 3 would increase this amount to \$200,000. VA reports that this provision would increase the number of veterans who have their entire mortgage balance covered by insurance from 55 percent to 94 percent.

According to VA, about 3,000 veterans participate in the VMLI program. Since the premiums charged to these veterans are based on the mortality rates of comparable nondisabled individuals, the program requires a subsidy from VA to cover the costs of the claims. The proposed change in coverage would increase the premiums paid by the policyholders, but also would increase the amount of the subsidy required from VA. CBO obtained data from VA that compared the projected subsidies to the VMLI program if the current coverage level was maintained against the estimated subsidies needed if the coverage was expanded to \$200,000. The difference represents the additional subsidy that would be required from VA. Based on that information, CBO estimates that enacting this provision would cost \$2 million in 2005, \$20 million over the 2005-2009 period, and \$51 million over the 2005-2014 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4229 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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